# UK Investment Firm Prudential Regime (IFPR)

Getting ready for 1 January 2022

**Regulatory Update: Part 2 of 4**

*The information provided is not an exhaustive statement of all the potentially applicable requirements and conditions, and is not intended to be a substitute for detailed analysis of the IFPR rules.*

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# IFPR Overview

## Background to the IFPR

- The IFPR is the UK variant of the EU's Investment Firms Regulation and Directive (IFR/IFD) which was implemented on 26 June 2021.
- The IFPR replaces the Capital Requirements Regulation/Directive (CRR/CRD) for UK investment firms (including CAD-exempt firms), given the CRR was more designed for the banking sector.
- Building on FG20/1Assessing Adequate Financial Resources, the FCA link its *financial adequacy* Threshold Conditions to the requirements of the IFPR.

## Timeline for implementation

- The final IFPR rules set out in the legal instruments – FCA 2021/38 and FCA 2021/39. FCA have also published FG21/5: General guidance on the application of ex-post risk adjustment to variable remuneration. A third policy statement is due to be published by the end of 2021, before the IFPR implementation date of 1 January 2022.
- Firms are advised to start collecting data for IFPR one month before implementation, i.e. from 30 November 2021.
- DWF's overview of the technical changes arising as a result of the introduction of the IFPR is summarised through a series of four regulatory change updates.

| IFPR: 12 key areas for consideration by firms | |
|---|---|
| 1. | Firm categorisation |
| 2. | Capital resources |
| 3. | Capital requirements |
| 4. | Liquidity requirements |
| 5. | Financial Threshold Conditions |
| 6. | Regulatory reporting & Disclosures |
| 7. | Group reporting & consolidation |
| 8. | Risk Management |
| 9. | Governance |
| 10. | Remuneration |
| 11. | FCA rulebook and supervisor processes |
| 12. | Other new requirements |

The IFPR is implemented on 1 January 2022.

# IFPR changes

## Liquidity requirements

Liquidity requirements follow the same principles as capital requirements under the IFPR, i.e. the focus is on ongoing viability and wind-down planning within the Overall Financial Adequacy Rule.

- Firms under the IFPR will have to hold a minimum level of liquid assets to meet its Liquid Assets Threshold Requirement (LATR).

- The LATR is the sum of:
  - A third of the FOR plus 1.6% of any guarantees provided to clients = the Basic Liquid Assets Requirement (BLAR); and
  - Additional liquid asset requirement (ALAR) - this will be derived from the internal assessment carried out in the ICARA process.

- The BLAR must be covered by Core Liquid Assets (CLA) which comprises of the following:
  - Coins/Banknotes
  - Short-term UK bank deposits
  - Units in a short-term regulated Money Market Fund
  - Assets representing claims on the UK Government or the Bank of England
  - Trade receivables can be used for SNIs and non-SNIs who do not deal on own account, and where receivables are within 30 days and will have a haircut of 50%

- Non-Core Liquid Assets (NCLA) which includes liquid assets such as deposits at non-UK banks, claims on non-UK governments and claims on non-UK central banks, can be used to meet the ALAR element of the LATR, but not the BLAR.
- Firms that currently prepare an ILAA or ILSA will no longer have to do so under the IFPR. Liquidity assessments will be captured and documented within the ICARA.

More detail on Public Disclosures requirements can be found in the CP21/26.

Public disclosures will not be required by SNI firms (apart from Basic Remuneration Disclosures), unless that SNI firm has issued Additional Tier 1 Capital.

# IFPR changes

## Financial Threshold Conditions

Firms will have to ensure that it meets its Overall Financial Adequacy Rule (OFAR), "A firm must hold adequate own funds and liquid assets to ensure it can remain viable throughout the economic cycle, with the ability to address any potential harm from its ongoing activities, and to allow its business to wind-down in an orderly way".

- For the capital element of the OFAR, the Own Funds Threshold Requirement (OFTR) is the sum of the OFR and Additional Own Funds Requirement (AOFR).
- The AOFR is derived from the ICARA process which will replace the current ICAAP under the CRR.
- The AOFR is therefore similar to the Pillar 2 capital assessment from the ICAAP and CRR.
- Not meeting the requirements of the OFAR could lead to a wind-down scenario for the firm.

## Regulatory Reporting – New requirements

FCA makes an objective link between capital requirements under IFPR and its adequate financial resources Threshold Condition.

| Current Reporting | IFPR Reporting |
|---|---|
| FSA001 Balance Sheet | FSA029 Balance Sheet |
| FSA002 Income Statement | FSA030 Income Statement |
| FSA003/COREP Capital Adequacy | MIF001 Capital Adequacy |
| FSA019 Pillar 2 | MIF007 ICARA Questionnaire |
| REP005 High Earners | MIF008 Remuneration |
| FIN067/068 CPMI | FIN067 CPMI |
| | New MIF002 Liquid Asset Requirement |
| | New MIF003 Metrics Reporting |
| | New MIF004/005 Concentration Risk/K-CON |
| | New MIF006 Group Capital Test |

# Next steps

## Take action..

The following steps should be considered right now by Boards and Senior Management:

1. Understand the final IFPR rules set out in the legal instruments FCA 2021/38 and FCA 2021/39. Also, see if FG21/5: General guidance on the application of ex-post risk adjustment to variable remuneration applies to your firm.
2. Model the liquidity requirements under IFPR, in terms of LATR and specifically for the BLAR and ALAR
3. Understand new reporting requirements and ensure that the MI can be created and consider the guides to help with the management and reporting of climate-related financial risks
4. Undertake a practise run of future regulatory reporting under the new rules.
5. Ensure all in the business are clear on the new Financial Threshold Conditions
6. Engage with us to assist with your preparations and avoid costly mistakes

## Seeks professional input..

*It is important that investment firms such IFPRU, BIPRU, or exempt CAD firms, plan for IFPR now, to be clear about the implications for your firm's liquidity.*

Contact us for :

- Advice
- A gap analysis
- An impact analysis
- Assistance with capital planning
- Detailed implementation support

## Contact us..


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